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DEPARTMENT OF STATE

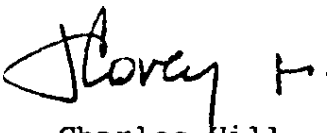
Washington, D.C. 20520

May 11, 1983

Executive Registry
83-24671UNCLASSIFIED w/CONFIDENTIAL ATTACHMENTSMEMORANDUM FOR MR. DAVID E. PICKFORD
DEPARTMENT OF THE TREASURY

SUBJECT: SIG-IEP: UNCTAD VI Strategy

Under Secretary Wallis has asked that the attached set of strategy papers be referred to the SIG-IEP for Friday's meeting to complement the overall strategy paper distributed on May 9. All four papers were developed in interagency working groups or committees: the trade and commodities papers under the leadership of USTR; the money and banking paper under Treasury; and the "basket items" paper under State leadership.

Attachments:
As stated.
Charles Hill
Executive Secretarycc: OVP
NSC
Agriculture
CEA
CIA
Commerce
Defense
OMB
OPD
USTR

- Mr. Donald P. Gregg
- Mr. Michael O. Wheeler
- Mr. Raymond Lett
- Mr. William Niskanen
-
- Mrs. Helen Robbins
- Colonel John Stanford
- Mr. Alton Keel
- Mr. Edwin Harper
- Mr. Dennis Whitfield

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Trade Strategy for UNCTAD VI

I. Major U.S. Objectives

- (1) To turn UNCTAD toward a more constructive orientation and to persuade the conference to respect GATT's responsibilities for establishing international trading rules, providing dispute settlement mechanisms and conducting multilateral trade negotiations.
- (2) To present the case for U.S. trade policy as a constructive factor in LDC development prospects.
- (3) To encourage the UNCTAD Secretariat to adopt a more balanced approach in its analytical work on trade problems, specifically to deal with LDCs' trade regimes as well as the trade practices of developed countries.
- (4) To encourage the recognition by UNCTAD members that the solutions to international trade problems require appropriate policies by all countries, taking into account differences in individual countries' levels of development (including differences among developing countries).

In attempting to achieve these objectives, the U.S. delegation will face the following problems and constraints:

- The U.S. will be subjected to severe criticism on GSP. The G-77 already has indicated its intention to push the Syrian resolution on GSP that was presented to the 11th session of the Special Committee on Preferences. By June it will be clear that the Administration's GSP renewal proposal includes greatly intensified graduation from unilateral benefits for the advanced beneficiaries and an inducement for increased trade liberalization by them. These elements conflict with the Syrian and Buenos Aires resolutions and probably will become the targets of severe G-77 criticism for violating previously agreed UNCTAD resolutions and for undermining GSP.
- The majority of our Group B colleagues are likely to have greater flexibility than the U.S. in permitting UNCTAD to undertake activities in the gray area of

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UNCTAD-GATT overlapping responsibilities. This problem is likely to be most evident in the area of services, in which both the EC and the LDCs have reasons to support a more active UNCTAD work program than has been approved in the GATT. It's quite conceivable that the EC would decide to be extremely forthcoming on services, leaving the U.S. as the only delegation resisting a major UNCTAD work program in services. Other Group B members also are likely to be less rigid than the U.S. on other items on the trade agenda (e.g., examining the principles and negotiating procedures of the current trading system).

- The UNCTAD Secretariat's work on trade continues to be consistently biased against developed countries. The basic premise of the Secretariat is that developed countries' trade barriers against developing countries define the limits within which LDCs can develop their trading sectors. Practically no attention is given to the effects of developing countries' own economic and trade policies. As long as the Secretariat continues to serve the dual role of U.N. agency Secretariat and G-77 Secretariat, this bias is likely to continue.

- The United States and the rest of Group B do not accept the Secretariat/G-77 perception that the current trade situation represents the culmination of the existing system's inability to respond to secular structural changes in international trade and production. While we agree with the Secretariat on some of the weaknesses evident in the current system, we and the other Group B countries do not agree that the system needs to be replaced with a radically different system. Rather, we believe that the solution requires: 1) reversal of the cyclical economic decline; 2) full implementation of existing trade commitments; 3) significant reform of some elements in the current system (e.g., safeguards, dispute settlement, agricultural trade).

The U.S. has the following advantages in dealing with the trade issues at UNCTAD VI:

- In general the U.S. trade regime is more transparent than the trade policies of most countries -- our Group B colleagues as well as the developing countries. We would benefit by having more light cast on all countries' trading practices. Accordingly, we can support resolutions and activities that promote greater openness in the formulation and implementation of

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national trade policies, provided that there is participation by LDCs and that we're not left as the only country actually providing information to UNCTAD.

- We want to negotiate with the LDCs within the GATT for mutual improvements in market access. Several other members of Group B, as well as some LDCs, really do not want to negotiate; rather than open new export markets, they want primarily to protect their home markets for domestic production. While our willingness to conduct negotiations is contingent upon certain conditions being met (e.g., they must take place in GATT; advanced developing countries must make concessions), we at least are favorably disposed to exchanging concessions with LDCs in the GATT.

- The more responsible governments, both among LDCs and among the members of Group B, want to see UNCTAD decisions that the United States can support. They are willing to modify their positions somewhat to obtain U.S. agreement. The strong positions we have taken in the past year have made them nervous and thus strengthen our hand. The EC also is concerned that the U.S. might pursue in UNCTAD some of our trade disputes with them.

II. U.S. Approach

The U.S. will maintain its opposition to any UNCTAD activity that could be construed as a trade negotiation outside GATT. We will work closely with the other members of Group B to develop a common approach to trade at the Conference -- as long as there is Group agreement that negotiations leading to either trade concessions or new trade rules are the responsibility of GATT and, therefore, are excluded from UNCTAD's mandate by Resolution 1995 (UNCTAD's Charter) and by TDB Decision 45 (VII). We should seek a clear agreement on this point at the OECD Ministerial and the Williamsburg Summit. We should make it clear to the rest of Group B, the G-77 and the UNCTAD Secretariat that we are willing to stand alone if necessary on this issue; this message should be reiterated in all our remaining consultations on UNCTAD VI, including the Leeds Castle meeting, bilaterals with other UNCTAD members and coordinating sessions for Group B.

Assuming that the rest of Group B agrees with us on the above issue, however, we will work with the Group, especially the EC, to develop a unified, sound Group B position on the specific issues on the UNCTAD agenda. By mid-May, we will

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convey our positions on the individual trade issues to OECD capitals and suggest that all members send representatives from capitals to the Trade Committee Working Party on May 24-25. If that meeting reveals major differences with our Group B colleagues, we would make representations in capitals prior to delegations' departure for Belgrade.

The outer bounds of our flexibility on specific issues, at least with respect to the question of GATT-UNCTAD relative responsibilities, are described in TPSC Document 83-24. Within these bounds, however, we should be prepared to support actively UNCTAD resolutions that have the potential of helping to reduce protectionism.

We have no major trade initiative with which to counterbalance the negative impact of our GSP renewal proposal.

Among the G-77 and UNCTAD Secretariat proposals on which the U.S. can be forthcoming (subject to the limitations specified in the respective position papers) are the following:

- Agree to national reviews of trade legislation, regulations and administrative procedures with a view to improving the procedures and eliminating properly defined trade harassment.

- Support an UNCTAD reaffirmation of the GATT Ministerial commitment to avoid new protectionist actions and support an effort by all countries to join in a mutual rollback of existing protectionist and trade-distorting measures.

- Explore the feasibility of special provisions in GSP schemes for LLDC's, such as including all dutiable products in the program, waiving competitive need limits or granting higher de minimus exclusions, and liberalizing cumulative rules of origin.

- Agree to a continuation of the UNCTAD Secretariat's effort to develop a computerized data base of governmental measures affecting trade, provided data on LDCs and socialist countries are included. This would be a voluntary activity, not a rival notification requirement to that in the GATT.

- Under the subject of "principles and techniques for future multilateral trade negotiations", encourage

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UNCTAD to support the liberalization of North/South trade, making it clear that negotiations could take place only in GATT.

- Actively support GSTP (Global System of Trade Preferences) negotiations among LDCs, provided UN and GATT principles were upheld.

- Define an appropriate UNCTAD role in examining trade in services, provided the role does not divert effort from the GATT Ministerial follow-up in this area.

- Support an UNCTAD examination of all countries' recent experience with import relief and structural adjustment.

- Support an UNCTAD examination of the pattern of export finance and insurance for exports from developing countries, in order to determine if there are adequate facilities supporting LDC export expansion.

- Agree that the UNCTAD Secretariat can examine the impact on LDCs of existing rules and principles of the trading system, including the application of differential treatment, provided there are strong terms of reference for such an examination. Authority for such a study, however, must not prejudice the conclusion of the study nor suggest that UNCTAD will have any responsibility for establishing new binding rules.

III. Signals

We may face a confrontation on GSP, services or UNCTAD-GATT responsibilities. It is essential, therefore, that in the weeks leading up to Belgrade, the United States give a consistent message to Group B, the G-77, and the Secretariat that in the trade area as in others the U.S. will hold firmly to sound positions. In attempting to lower the G-77's expectations, however, we must avoid the sort of confrontational tone that would encourage them to adopt a nothing-to-lose radical stance. In other words; we should show interest in discussing UNCTAD VI trade issues with any countries interested in a successful conference and we should indicate our intention to participate actively at UNCTAD VI, but we will not agree in advance to any concessions in trade nor suggest that concessions on policy or principle will be forthcoming.

IV. Background

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In the trade agenda of UNCTAD VI the G-77 will stress trade reforms, most of which we traditionally have viewed as encroachments on the mandate of the GATT. On the other hand, trade does not entail the high financial costs or massive resource transfers that demands in the commodity and financial areas usually involve.

Underlying the LDC position on trade is a conviction that the rules of trade are not working fairly because it is too easy for major trading nations to evade them. For many years, the developing countries have pushed for adoption of new legal principles, with more binding force than present GATT agreements, to govern trade relations. LDCs also argue that these new principles should be negotiated within UNCTAD, which unlike the GATT is a universal organization. Their arguments ultimately lead to the idea of reviving the International Trade Organization (ITO), which in its original structure would have included the GATT agreements as a code governing commercial policy practices.

A. The U.S. Perspective

The United States agrees with the majority of UNCTAD members that protectionism is wrong and that protectionist practices should be eliminated. We also agree with the LDCs that a number of current trade practices depart substantially from the letter and spirit of the GATT, and that efforts at reform are called for. The GATT Ministerial was a disappointment precisely because our desires for a strong commitment to free trade and to an ambitious work program leading to reforms were not acceptable to all parties.

In principle, therefore, UNCTAD could serve U.S. trade policy objectives by strengthening international commitments to trade liberalization, greater transparency in trade practices, and structural adjustment. In practice, however, the highly politicized atmosphere in UNCTAD, which is reinforced by the Group system of negotiating and which permeates the Secretariat, works against a reasonable level of obligations on the part of developing countries. The Buenos Aires draft resolution on trade offers little basis for optimism on this point. Despite all the G-77's and UNCTAD Secretariat's touting of the "new pragmatism" and "moderation" at Buenos Aires, the trade resolution lacks any reference at all to the trade policies of the developing countries themselves. This omission is neither logical nor politically acceptable; unfortunately, it probably is necessary to maintain unity within the Group of 77. Unless the developing countries are willing to open the door at

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least a crack on the issues of developing countries' responsibilities and differentiation among LDCs, it is doubtful that UNCTAD VI can contribute significantly to U.S. trade policy objectives. Nevertheless, the U.S. delegation should negotiate actively at Belgrade to incorporate our perspective in the conference resolutions.

B. Group B Views

We still do not have detailed reactions by other Group B countries to the G-77's Buenos Aires resolution on trade. We do know, however, that the German government, which holds a key role in preparing EC papers on trade, has been considering favorably a number of the G-77 and UNCTAD Secretariat recommendations. These views, still not fully cleared within the FRG or accepted by the EC, include domestic review of import relief legislation, special treatment of LLDCs, greater effort to avoid protectionism, and discussions in UNCTAD on safeguard criteria. The FRG would also be willing to acknowledge a general link between safeguard actions and structural adjustment. Finally, the Germans are also looking for ways to channel UNCTAD discussion on structural adjustment along the lines of an OECD study, The Case for Positive Adjustment Policies, referred to on page 49 of the UNCTAD document.

The EC permanent representatives expect to agree on the Commission's UNCTAD position on May 18 and send it to the Foreign Affairs Council on May 24th for final approval. Position papers on specific agenda items will be sent to the EC North-South Group in early May.

From consultations with other Group B members in Paris, and Geneva and from reporting cables from capitals, it appears that Group B thinking on the UNCTAD trade issues is forming along these lines:

a. Australians are inclined to let UNCTAD work on issues not making progress in the GATT, e.g., agricultural protectionism. Australia believes that on trade the EC will stonewall behind buzzwords at UNCTAD VI. Australia points to EC practices, especially in agriculture, as evidence of the inadequacy of present trade rules and national practices.

b. Except for Australia, there is no enthusiasm to have UNCTAD examine in detail national policies and measures.

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c. Australia, supported by Switzerland, advocates going beyond the GATT Ministerial declaration in promoting a freeze on protectionist activities. Canada and the OECD Secretariat question the advisability of a "standstill" pledge in UNCTAD since the legal basis and follow-up mechanism do not exist in UNCTAD.

d. Apparently, Australia would not oppose UNCTAD work on services, since it believes the EC will never agree to a meaningful services work program in the GATT.

e. Germany proposes that UNCTAD elaborate criteria for structural adjustment, but insists that actual negotiation of new discipline take place in GATT.

f. Germany and Canada suggest that UNCTAD could endorse GATT activities such as work on safeguards and non-tariff barriers. EC representatives caution that endorsement of GATT work could have strings attached.

g. All agree that future UNCTAD implementation of Resolution 131(v) on structural adjustment and protectionism should entail no new UNCTAD machinery.

h. Japan, the EC, Australia and New Zealand appear to have an open mind toward the G-77 suggestion for a World Trade Conference. Australia was most positive; the EC warned about "excessive negativism" toward the idea.

C. The U.S. and Group B: Search for a Common Approach

A key question for Group B in considering the G-77 and Secretariat proposals is: What is an appropriate and desirable division of labor between GATT and UNCTAD in the trade field? Both the U.S. and most of Group B have consistently opposed past UNCTAD attempts to negotiate specific trade issues, either by using economic arguments to counter UNCTAD initiatives or by pointing out pre-existent GATT competency in the area. However, many in Group B, including the Community, are more inclined to let UNCTAD examine and reach conclusions on trade issues which are more important to the U.S. (e.g., services) and which we would rather treat solely in the GATT. Often, they argue that no matter what UNCTAD conclusions emerge, governments are not obligated to carry them out.

On trade, as on most everything else, the U.S. takes a hard-line position within Group B. Although we recognize that UNCTAD has a trade mandate, our traditional approach has

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been to insist that Group B resist UNCTAD efforts to expand its trade activities into areas which overlap pre-existing GATT competency or prejudice on-going GATT work programs. With the GATT Ministerial behind us, we would also be inclined to restrict UNCTAD activities in areas which have seen little GATT progress in the past but which are included in the follow-up to the GATT Ministerial.

Nevertheless, we have to deal with the likelihood that UNCTAD is here to stay, and that LDCs will continue to regard it as their forum to pressure the industrialized countries. Thus, the challenge facing the U.S. in Group B is finding something constructive for UNCTAD to do, while preserving the existing mandate of the specialized agencies and not prejudicing their future work.

D. Group D's Views (to be provided)

E. The G-77's Views

At the fifth Ministerial Meeting of the Group of 77 in Buenos Aires (March 28 - April 9), the LDCs agreed upon the resolutions that they will present for negotiation at UNCTAD VI. The trade resolution includes the following major elements:

a) Protectionism

- standstill of developed country restrictions on LDC exports;
- immediate elimination by developed countries of all measures adversely affecting LDC trade that are incompatible with international trade commitments;
- time-bound rollback of all developed countries' protectionist measures affecting LDCs;
- suspension of antidumping duties and countervailing duties against LDCs, and suspension of ongoing investigations;
- immediate negotiations (not stated where) on an improved multilateral safeguard system;
- significant reductions in internal taxes levied by developed countries on products imported from LDCs.

b) Structural Adjustment

- urgent measures to achieve the objectives of the Lima Declaration (25% of world industrial production for LDCs by the year 2000; they have about 7% currently)

- specific programs by developed countries to facilitate structural adjustment in those sectors in which developed countries have applied protectionist measures during long periods or on repeated occasions;

- undertake a study by UNCTAD of the consequences of concentrating economic power in agro-industrial production and propose measures to strengthen LDC participation in production and trade in agro-industrial products;

- adoption of measures to assist LDCs in establishing export finance and insurance facilities;

- developments of means to provide guarantees concerning the quality and performance of capital goods and technology imported by LDCs.

c) GSP

- preservation of existing benefits and significant improvements in scope of schemes;

- establishment by UNCTAD of multilateral guidelines for the operation of GSP;

d) Trading System Rules and Principles

- in-depth study by UNCTAD of rules and principles of international trading system (already recognized as "not adequate, equitable, efficient or effective"), with a view to establishing a new set of rules and principles leading to a universal system.

e) Services

- UNCTAD development of programs to increase LDCs' participation in international trade in services;

- technical assistance by UNCTAD Secretariat for LDCs in the area of services;

- UNCTAD development of recommendations for mechanisms of multilateral cooperation in services that may benefit

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LDCs; such mechanisms should ensure differential and more favorable treatment to LDCs.

The developing countries feel that the Buenos Aires resolutions represent a more pragmatic approach than the G-77 approach to previous meetings of UNCTAD. They have presented these draft resolutions as negotiable documents rather than as final demands.

F. The UNCTAD Secretariat's Views: The UNCTAD Secretariat's document for the trade agenda item (Document TD/274) complements the G-77's Buenos Aires positions. The Secretariat report first reviews the state of the trading system from the point of view of LDC trade relations with the industrialized world. This review covers familiar issues of protectionism, structural adjustment, graduation, decline of the normative strength of GATT rules, and so on.

While the Secretariat's view of world trade relations closely parallels the view of the G-77, its conclusions are less unbalanced and provocative. The document ends with a set of recommendations for national and international action to "improve and strengthen the international trading system." In brief, these include:

- a. a national and international commitment to refrain from new protectionist actions;
- b. monitoring at the national and international level of existing practices which impede trade;
- c. reviews of the principles, policies and practices of international trade, especially the economic criteria used for taking protective actions;
- d. national and international measures to foster structural adjustment through a coordination of positive adjustment measures.

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UNCTAD VI -- COMMODITIES

Problem

Commodity policy will be a major issue at the upcoming UNCTAD VI meeting in Belgrade (June 1983). UNCTAD is calling for drastic interim commodity market support measures to stem the sharp fall in commodity prices as well as establishment of a new financing facility to ease shortfalls in commodity-based export earnings and an expanded UNCTAD and developing country role in commodity processing, marketing, distribution, and investment. Their proposals have been, in essence, endorsed by the G-77. Moreover, many of the Group B countries are apparently eager to shift the focus of UNCTAD VI discussions to commodities, where they see UNCTAD as having a more legitimate and established role than in trade or financial matters.

The U.S. Government's overall stance on commodity policy as well as its positions on the specific issues must be consistent with our overall objectives at UNCTAD VI, which are basically aimed at promoting an atmosphere of cooperation rather than confrontation but, at the same time, seek to force UNCTAD discussions and activities onto a more realistic footing, consonant with the economic and political philosophy of this Administration. It should also reflect the USG belief that commodity initiatives can play only a limited role in LDC economic growth. This Administration has made clear its great skepticism as to the value of price stabilization-type commodity agreements; but a number of actions have been taken (e.g., renegotiation of the Coffee Agreement) in support of agreements of which we are already members.

Recommendations

The core of the U.S. approach to UNCTAD VI commodities issues should be a continuation of our carefully-qualified support for the Integrated Program on Commodities (IPC). All this really means is that we are not reneging on our previous approval of UNCTAD Resolutions 93(IV) and 124(V). As we have proven over the past 7 years, this commits us to nothing--except a willingness to continue discussions where we judge that some form of cooperation might be feasible. The U.S. delegation would continue to make clear our skepticism as to the value of price stabilization-type commodity agreements. At the same time, however, the United States would reject calls for new and expensive initiatives in the commodities area. Most of the major proposals put forth by UNCTAD Secretariat fall in this category and bear little resemblance to what can be realistically achieved.

More specific recommendations are outlined below:

1. Continuation of the IPC. The United States could join a Group B consensus reiterating its carefully qualified support for the IPC, noting the modest achievements of that effort (i.e., conclusion of existing commodity-agreements--in particular,

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rubber; progress towards the establishment of "other measures" agreements--especially jute and tropical timber, etc.). U.S. delegation could therefore associate itself with appropriately qualified hortatory resolutions calling for further progress in the IPC. The scope of such resolutions should effectively be limited to language of [similar resolutions approved by the United States in UNCTAD V, the Trade Development Board (TDB), and the UNCTAD Committee on Commodities, which do not commit the United States to any specific negotiations. U.S. del should, however, express our skepticism as to value of price stabilization agreements and point out the difficulties which such agreements can engender.

2. Commodity Price Stabilization Agreements. The United States should indicate, both at UNCTAD VI and at appropriate occasions prior to that conference, its intention to continue its case-by-case approach to commodity agreements. U.S. del would, however, underline USG skepticism about the benefits of price [stabilization agreements and make clear that we are unlikely to participate in any new agreements of this type. The U.S. del should also make clear that the pursuit of discussions on individual commodities does not imply an obligation to conclude an arrangement. In most cases, the appropriate conclusion might be that no international commodity agreement is desirable.

3. Commodity Finance Issues. The cyclical downturn in commodity prices in 1981-82 associated with stagnant economic growth in the industrial countries has given renewed impetus to initiatives designed to compensate commodity-dependent developing countries [for resultant shortfalls in export earnings. Acting under guidelines of Resolution 125(V) passed by the Manila Conference (the United States and most other Group B countries either voted against this resolution or abstained), the UNCTAD Secretariat has developed a proposal calling for short-term (modify the IMF's Compensatory Finance Facility (CFF)) and long-term (create a new compensatory facility) actions. In addition, some developed countries, including Sweden and West Germany, have made proposals that either would be aimed at LLDCs and/or would expand the existing EEC STABEX scheme. At Buenos Aires, the G-77 drafted a resolution calling for the convening of a preparatory meeting for a negotiating conference on a new financing facility by December 1983.

The U.S. del should oppose any further UNCTAD discussion or study of compensatory financing, again asserting that IMF is the proper forum for such discussion. Similarly, the U.S. del should oppose the convening of any meeting ("preparatory" or otherwise) to discuss this issue. In voting against Resolution 125(V), the United States cited the inappropriateness of undertaking a study of compensatory financing outside the IMF. However, now that the UNCTAD study and proposals are completed, it is the U.S. position that they should be referred to the IMF/IBRD Development Committee for review.

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4. The U.S. del may indicate that we would be willing to participate in "other measures" agreements (i.e., non-price stabilization agreements--devoted to market research and development and exchange of information) if it appears that such agreements will serve a useful function and where they meet certain criteria (along the lines developed for the International Jute Agreement). However, the USG would also seek to have the possibility that the private sector (rather than a multinational body) could handle such activities thoroughly explored.

5. We should reject the emergency program of interim commodity agreements proposed by UNCTAD.

6. The USG would be willing to explore the possibility of establishing producer-consumer fora for commodities--in particular, minerals--as long as such fora would not be involved in market stabilization activities.

7. The USG should maintain its current position on the Common Fund--namely, that the USG is prepared to consider ratification when a sufficient number of suitably structured commodity agreements have declared their intention to associate with the Fund.

8. The U.S. del should have flexibility with respect to the establishment of "frameworks of international cooperation" for the expansion of LDC participation in the processing, marketing, and distribution of commodities; the delegation could accept the designation of the UNCTAD Committee on Commodities as a framework (with appropriate qualifications) or a resolution establishing "a conceptual framework." The U.S. del could support reorientation of the International Trade Center towards work on expanding the LDC role in the marketing and distribution of commodities. It should support the initiation of an UNCTAD examination of national and international obstacles to the free flow of investment in commodities.

9. The U.S. del could agree to a general review of commodity agreements within UNCTAD if it: (a) did not infringe upon the autonomy of individual agreements and (b) permitted consideration of the possible adverse effects of commodity agreements.

The recommendations outlined above are aimed at developing a USG position sufficiently flexible and forthcoming to: (a) provide a basis for maintaining Group B unity on most commodities issues at UNCTAD VI and (b) secondarily, to offer some hope of accommodation with the G-77 on most of these issues at the Conference. It is probably unavoidable, however, that the U.S. del will have to stand alone on certain resolutions

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concerning commodities--in particular, commodity finance issues. The recommendations are also designed to avoid any new commitments in the commodities area involving significant budgetary outlays or important compromises in the economic and political philosophy of the United States or in its economic interests. In pursuing the recommendations, the U.S. del should emphasize the economic soundness of our positions and our willingness to engage in a constructive dialogue.

Monetary and Financial Issues at UNCTAD VIOverview/StrategyIssue

Both the G-77 and the UNCTAD Secretariat will stress monetary and financial proposals at UNCTAD VI, both as the core of the "immediate measures" program proposed at the March NAM Summit and endorsed at Buenos Aires to revitalize LDC growth, and as part of their long-term campaign for "reform" in the international monetary system. While we will have to deal to some extent with the G-77 agenda, our primary focus should be on using UNCTAD as a forum for promoting our own views on the roles of domestic policies, trade, adjustment, private investment and aid effectiveness in development.

Background

The G-77's view of how monetary and financial issues should be treated at UNCTAD VI is diametrically opposite to ours. The G-77 will stress the external causes of the economic "crisis" confronting them, and will demand external solutions through various forms of new resource flows. While we recognize the impact of external factors, especially the oil price shocks of the 70's and the global recession, we believe that failure on the part of most countries to adjust promptly to changing world economic conditions has exacerbated the problem and deepened the recession. We therefore stress the need for adjustment by all countries to reestablish a basis for sustainable, non-inflationary growth and increased world trade. They will demand increased aid; we insist on effective aid use and on graduation. They press for radical systemic change, while we point to the international financial system's evolution, its adaptability and its fundamental soundness. Given our fundamental differences over the nature and degree of the problems facing the world economy, especially the economies of developing countries, we can expect the money and finance agenda at Belgrade to be difficult.

Our differences are not only with the LDCs. Many in Group B are less inclined to promote market solutions to economic problems, perhaps due in equal measure to philosophical differences and to a desire to protect sensitive domestic markets from LDC competition, and are more willing to accept proposals, which in our view are unsound or impinge on the role and responsibilities of the international financial institutions. Therefore we will need to devote considerable attention to protecting our flanks from Group B desertion. If we succeed, we can direct G-77 efforts to more pragmatic solutions and protect the international financial institutions.

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U.S. Agenda for Growth

Our vision of interdependence is different from those of most of our adversaries in the G-77, and even from many of our partners in Group B. The United States is supporting a comprehensive, positive program to assist in making current LDC payments difficulties more manageable and to create the basis for sustained, long-term economic recovery. Our multi-faceted strategy emphasizes: economic adjustment by countries in payments difficulties; adequate support from official sources, particularly the IMF, to assist these adjustment efforts; willingness of governments and central banks in lending countries to act quickly, on a selective basis, to respond to individual debt crises; prudent new lending by commercial banks to countries undertaking effective adjustment efforts; and pursuit by industrial countries of policies designed to promote sustained, non-inflationary growth and counteract protectionist pressures in order to maintain an open world market and trading system. In helping to ameliorate current difficulties and strengthen the existing monetary financial, and trading system in the long run, the independent specialized agencies (IMF, World Bank, and GATT) play a central role in this U.S. approach.

The U.S. view of interdependence and the linkages between trade, finance, and development is most clearly illustrated by the stress we place on orderly and effective domestic adjustment in borrowing countries. To more efficiently allocate resources, LDCs need to pay more attention to market signals. At the same, DCs need to maintain open markets and pursue non-inflationary growth policies so that LDCs can increase net exports, service their debts, and invest.

There is general agreement in Group B over the key role that appropriate LDC domestic policies play in development. We will want to push for endorsement of policies which rationalize LDC economies, permitting prices and exchange rates to be set by market forces and productive entities to respond to real demand, both domestic and international. Such adjustment is key to the resolution of current balance of payments and debt problems facing many LDC economies.

We want to focus attention on the role of private sector in development. The private sector, both domestic and foreign, can be the decisive factor in mobilizing energies and resources for development. At the same time, we recognize that, in many cases, development assistance is an important catalytic factor, especially for the poorest countries.

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Ours is a different agenda from that of the G-77, but it is a sound one. If we are able to advance our ideas effectively at Belgrade, we may be able to encourage the slightly greater pragmatism and realism which some LDC representatives have begun to show in public fora in recent months.

US Posture at UNCTAD

Recognizing that UNCTAD is, despite its serious limitations, a major forum for the exchange of ideas on development, we should be aggressive in presenting our vision of growth and development policy there. The reluctance of the Europeans, especially the French, to discuss trade matters should be used as leverage in holding back the EC in areas of finance critical to US interests. Our key concerns should be:

-- to prevent expansion of UNCTAD activities in the monetary and financial area, ensure that independence of specialized agencies (IMF, GATT, World Bank) is respected, and that no attempt be made to dictate their policy decisions.

-- to stress the progress that is being made in appropriate fora to address LDC concerns.

-- to stress the importance of adjustment, and the key role IMF conditionality plays in facilitating it.

-- to ensure that proposals emerging from the Conference do not jeopardize Congressional adoption of negotiated packages such as the IMF quota increase or US contributions to IDA VI.

The G-77 Agenda: US Strategy

G-77 proposals fall roughly into four categories:

- a) measures to increase financing for LDCs through the IMF;
- b) measures to increase bilateral and multilateral ODA;
- c) debt relief measures;
- d) proposals for institutional reform of the international financial system.

a) Measures to increase financing for LDCs through the IMF

G-77 proposals include: substantial SDR allocations (at least SDR 15 billion annually), SDR-aid link, completion of Ninth General Review of Quotas by 1984, enlargement or at

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least maintenance of existing access policy, increase in LDC share of quotas, new facilities for extended financing, liberalization of conditionality, and expansion and liberalization of the CFF.

The G-77 appear to be fairly united in their demands on the IMF. We expect Group B cohesion to hold firm that the IMF itself is the appropriate body to take decisions on such measures. Nonetheless, Group B cohesion will be strained by differences within the Group about where the line should be drawn concerning discussion of these proposals in any detail by the Conference and negotiation of resolution language on the need for such measures.

The US seek a common Group B position which would:

- stress the significant accomplishments of the Interim Committee and G-10, which governments are making every effort to implement.
- point out that other matters (SDR allocation, levels of access to IMF lending) are under consideration in the IMF Executive Board and UNCTAD should not attempt to predetermine the outcome
- stress that resource transfers without appropriate conditionality will only delay needed adjustment and prolong economic difficulties.
- stress trade and private flows as the primary source of financing for development except for the very poorest countries.

b) measures to increase bilateral and multilateral ODA

Other countries have proposed, inter alia, bilateral targets; MDB funding levels and disbursement programs; gearing ratios; proposed increase in IBRD structural adjustment lending programs; elimination of graduation from hard windows; creation of a World Bank energy affiliate; they may also include inadequacy of Soviet-bloc aid.

Within Group B, the US and Switzerland are the only countries which have rejected the concept of donor GNP targets for aid. We will therefore need to downplay targetry and push for a focus on recognition of aid as only a small part of overall resource flows, with trade, private capital and investment flows more important; push effective use of aid as the key question to be faced; support better coordination and cooperation among donors; point to World Bank special assistance program for faster-disbursing aid; resist attempts to have UNCTAD dictate policy to MDBs; and support more effective graduation policies and targeting of aid on poorest countries.

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c) debt relief measures

G-77 proposals in the debt area include a call: for extending retroactive terms adjustment provided for in Part A of Resolution 165 to all low income countries and converting outstanding ODA loans into grants for all LLDCs; for all non-LLDCs, generalized relief on ODA repayments in the form of a two year moratorium on principal payments and, on official export credits, a consolidation and rescheduling of a substantial portion of principal and interest payments; additional program assistance from the MDBs equal to debt service owed to them; a revision by the TDB at its spring 1987 session of the debt features in Res. 222(xxi); a framework for consultations, involving the debtor and its private official creditors, prior to an official debt rescheduling. Reference is also made to the need for a generalized approach for dealing with private debt problems. This is not included in the operative portion of the draft Buenos Aires resolution on debt, however, and may reflect efforts on the part of major LDC debtors concerned about relations with their private bank creditors to head off UNCTAD intrusion into private debt operations.

In Group B, we expect general support for the traditional case-by-case approach to debt renegotiation in the Paris and London clubs; resistance to creation of new institutional frameworks; and extension of UNCTAD's activities in the LDC debt area. The odd man out is New Zealand, whose proposal for a facility to purchase and restructure LDC short-term debt hasn't generated much interest in Group B. France may be interested in some special debt relief, possibly RTA, to be offered to the poorest LDCs.

We will want to push our five-point program to ensure integrity of the international financial system (debtor adjustment, adequate IMF funding, central bank/treasury cooperation in selected emergencies, continued private bank lending in support of adjustment and open, growing markets in developed countries) as the best approach for making LDC debt liquidity difficulties manageable in the short run and restoring the basis for long term recovery. We should: oppose G-77 proposals for the creation of new institutional frameworks for dealing with LDC debt problems; prevent UNCTAD from expanding its activities in the area of LDC debt; ensure that any discussion of the implementation of debt features not damage the independence of the Paris Club or commercial bank renegotiations. We should be prepared, as necessary, to call on Latin American and Asian moderates to downplay the scope of debt proposals at the UNCTAD Conference.

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d) proposals for institutional reform

The G-77 will push the traditional NIEO objectives of restructuring the international monetary system, particularly in terms of seeking a greater voice in decision making processes. Some sympathy has been expressed in Group B (France) for the G-77 call for power sharing. The United States should strongly resist any efforts at the UNCTAD VI Conference to negotiate or even to discuss in detail any area which is outside UNCTAD's mandate.

With regard to the NAM call for a "global" conference on money and finance for development, the U.S. should seek Group B agreement that such a conference would directly undercut the existing fora dealing with monetary and financial issues (i.e., IMF, Interim Committee and Development Committee), create undesirable expectations, and detract from efforts underway to address current economic and financial difficulties.

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Agenda Item 13 - Basket Issues

AN OVERVIEW AND STRATEGY

The basket item on the UNCTAD agenda is a cluster of items representing various special interest groups within UNCTAD. The US would have preferred an agenda which did not include the particular and generally parochial items included in the basket. This generalization is open to one important exception: we were intent on having institutional questions on the agenda, and lacking support for its inscription in any other form, we had to be content to have it placed in the basket.

The reasons for our interest and concern on institutional issues are described in the background and position papers on this issue but can be briefly summed up as follows:

We consider that disputes over UNCTAD's mandate, bad management practices and general lack of accountability of the Secretariat to the member governments are serious impediments to the development of a coherent work program. These problems contribute to the widely shared view of many member governments that UNCTAD's end products are not in any clear fashion commensurate with the human and financial resources being invested in it.

We have already undertaken significant spade work in Group B to generate support for our view on institutional issues. A non-paper and a draft resolution have been distributed at OECD and in Geneva. While generally sympathetic to the substance of our resolution, Group B is concerned nevertheless that our emphasis on institutional matters will open up all items in the basket to substantive consideration at UNCTAD VI rather than a simple "review." This viewpoint is most vocally advanced by G-B representatives in Geneva.

While we have not received any specific G-77 reaction to our draft resolution on institutional issues, we can expect significant opposition which will come in two forms and from two sources. The UNCTAD secretariat, supported by the G-77, will oppose our specific proposals, e.g., our call for evaluations and procedures to provide for greater

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accountability, viewing them as a threat to their independence and freedom of action. On the other hand, the G-77 member states will oppose our general thrust since they approach the question of institutional matters from an entirely different direction. Their view involves dramatic structural changes, with emphasis on discussions of the establishment of an international trade organization and/or readjustments in the relationship between UNCTAD and the Bretton Woods institutions. Our approach has been one involving specific managerial and administrative improvements to the existing organizational structure.

Clear indications of the course to be pursued by the G-77 (and the Secretariat) are contained in the two G-77 draft resolutions on institutional issues prepared by the G-77 Ministers at the Buenos Aires Meeting. One resolution would give the TDB a mandate to undertake "an in depth study of the ways and means of bringing into existence a comprehensive international organization to deal with all aspects of trade and development. . .". This same resolution would inter alia grant UNCTAD "operational flexibility on budgetary and administrative matters." The second treats the TDB as a "consultation mechanism" and calls for ministerial level meetings once every two years beginning in the second half of 1984.

In order to achieve even our minimum objective on institutional issues, the US delegation will probably face an up-hill and prolonged battle involving widespread representations and demarches before and during the conference.

Institutional matters--including our view of UNCTAD's mandate and its relationship to other trade and development organizations as well as an explanation of our initiative on management and administrative improvements--should be a feature of our general debate statement.

At the opposite end of our range of interest is the item on national liberation movements. We are utterly opposed to the discussion of this issue at UNCTAD VI in any form. Nevertheless, the prospect of dropping the item from the agenda is remote. That being the case, we must be prepared to continue our vocal expression of outright opposition to any UNCTAD work in this field, and we should announce our intention to oppose any action on this item in our Plenary statement.

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Recent developments on Economic Cooperation Among Developing Countries (ECDC) have demonstrated how very thin the consensus is on implementing programs designed to forward the generally admirable principle of South/South cooperation. The unusual nature of the disagreements over implementation of the GSTP portion of ECDC--distinguished by a complete split between developed and developing countries over the principle of universality, which was forced to a vote--and the fact that the issue was side-stepped in a subsequent UNGA session, give rise to two possibilities. ECDC could become a centerpiece of UNCTAD VI or it could be ignored altogether. For now we prefer that it be ignored and that it be handled in regularly constituted channels in standing committees. Specifically, we favor discussion of this issue in the ECDC committee meeting scheduled for late 1983. A meeting on GSTP aspects of ECDC will take place in Geneva on May 2-6. Pending the outcome of the May meeting, our position remains that we will attack only if attacked. Our principled position on universality and sovereign equality of UN member states is clear and must be repeated if contested directly or obliquely. A basic objective of our strategy will be to maintain Group B unity in the face of any threat to recognized UN principles of universality and sovereign equality of states.

Trade relations among countries having different economic and social systems (East-South Trade) also may pose a special problem. The Secretariat paper on this item (TD 280) is a particularly egregious example of Secretariat bias and concern over it has been expressed within group B. We have recommended to our Group B colleagues that a strong substantive reaction to this document be prepared.

On all items in the basket, the US delegation will pay particular attention to the positions of other states and the Secretariat on future work programs. These work programs in general must, of course, conform to our view of UNCTAD's limited mandate. Beyond that, they must meet the USG's established position on the question of financial implications, i.e., activities called for must be implemented within a policy of zero net program growth with significant absorption of non-discretionary costs or by reprogramming of existing resources.

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At the Ministerial Meeting in Buenos Aires, the G-77 prepared draft resolutions on all of the basket items. Taken as a whole, the resolutions on the basket item provide for significant actions by UNCTAD in a number of areas. The cumulative effect will be to further expand UNCTAD's scope of action, increase the budget (since no complementary reductions are proposed) give the secretariat increased autonomy and move the organization into unproductive and controversial areas.

Highlights of G-77 resolutions prepared for the Basket Group item along with preliminary indication of US positions on each, follow:

Item 13 (a) Technology - A broad resolution that inter alia (1) urges conclusion of a code of conduct on transfer of technology (TOT), as well as revision of the Paris Convention on Industrial Property Protection; (2) urges UNCTAD to take measures to implement UNGA Resolution on the reverse transfer of technology ("brain drain"); (3) calls for massive expansion of the Advisory Service on TOT; (4) advocates UNCTAD action on a code of conduct for the pharmaceutical industry; (5) requests further UNCTAD meetings on TOT in food processing, capital goods and energy; and (6) recommends the adoption and implementation of a "Strategy for the technical transformation of developing countries."

US position: The US must oppose this draft resolution in its present state. Although general, hortatory language on the conclusion of a code of conduct on TOT and revisions of the Paris Convention may be acceptable, we must oppose endorsement of the UNGA Resolution on Reverse Transfer of Technology, and a code of conduct for the pharmaceutical industry. The proposed "Strategy for the Technological Transformation of developing countries," and increases in advisory services on TOT are laced with unacceptable budgetary implications.

Item 13 (b) Shipping - Two resolutions. The first, inter alia (1) urges special credit arrangements for LDC construction and purchase of ships, and (2) calls for "structural changes" in the world shipping industry. The second calls on member countries to implement the Code of Conduct for Liner Conferences and on the Secretary General to provide necessary assistance, particularly to developing countries.

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US Position - On the first US plans to join Group B in opposing most of the terms of the resolution on shipping and to support alternative proposals currently being drafted by the OECD. On the second, the US opposed the Code and will vote against the resolution.

Item 13 (c) Landlocked and Island Developing Countries - Two anodyne resolutions noting the special conditions of landlocked and island developing countries and calling for international assistance in the areas of transport and telecommunications development as well as general development assistance.

US position - The US does not accept the concept of landlocked and island developing countries as separate categories of developing states. We cannot support any calls for special donor efforts, new funds, new institutions or major initiatives for these "groups," although we would not oppose general statements calling for efforts to help them accelerate their economic development through activities designed to overcome their geographic handicaps.

Item 13 (d) - East-South Trade - One resolution listing a number of measures to be taken by Group D (Soviet and Eastern Bloc) but making no reference to east-west trade.

US Position - As written, this resolution poses no serious problems and the US could support it. Although it overstates the role of the socialist countries in the international trading system, it refrains from raising extraneous issues of east-west trade.

Item 13 (e) - ECDC - Two resolutions. The first urges member states to lend full support to pending action under the G-77's Caracas program to promote ECDC in specific areas such as trade and raw materials while the second one calls for "full implementation" of Resolution 127 V, which outlines ECDC activities.

US position - We oppose both resolutions. The US cannot accept UNCTAD support to the G-77's Caracas Plan of Action nor can we accept language linking ECDC to the NIEO. Neither can we support the "full implementation" of Resolution 127 (V) because it is not clear that programs outlined in that resolution would be open to all UNCTAD member states.

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Item 13 (f) - Assistance to National Liberation Movements - Three resolutions. The first is a general resolution in line with Resolution 109 V. The second requests that the UNCTAD Secretary General set up a special unit to "monitor and investigate" developments relating to Palestine. A third requests that UNCTAD "intensify" work related to a survey of economic and social conditions in Namibia.

US position. The US opposed inclusion of this item on the agenda and will oppose the resolutions. If we are unable to block consideration of the item at the Conference, the US will call for a vote on each and vote no.

Item 13 (g) - Institutional Issues - Two resolutions. The first seeks inter alia a UNGA Resolution that would give the TDB a mandate to undertake a study of "ways and means to (bring) into existence a comprehensive international organization to deal with all aspects of trade and development related matters," and which would grant UNCTAD "operational flexibility on budgetary, financial and administrative matters." The second resolution concerns the TDB as a "consultative mechanism" and calls for meetings at the ministerial level every two years beginning the second half of 1984.

US position. These resolutions are completely unacceptable. We oppose the study and the expansion of UNCTAD's operational flexibility. We oppose creation of the consultation mechanism in the first instance because the mechanism has never been defined. We oppose convening the Trade and Development Board at the ministerial level every two years

Consistent with the overall approach to UNCTAD VI, we will seek Group B unity in opposing any substantive actions under the basket item with the exception of institutional issues. Under that item we will oppose any actions whose result will be to further expand UNCTAD's mandate or further reduce the already tenuous control over the secretariat now exercised by the member states. We will continue to seek actions along the lines of those proposed in our draft resolution or, failing that, more effective implementation of Resolution 231, (Rationalization Resolution).

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As indicated earlier, a statement clearly defining our view of what, in fact, we mean by institutional issues and the importance we attach to progress in that regard should be included in the US plenary statement.

Our basic objective in the basket item, therefore, is two fold--to press for serious, substantive consideration based either on our draft resolution or on Resolution 231 (the Rationalization Resolution) and to see to it that other items in the basket area treated on a "review only" basis.